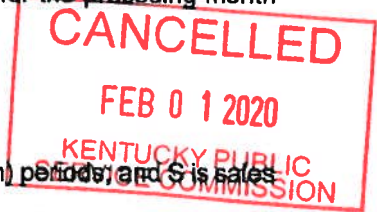


Fuel Adjustment

1. The fuel clause shall provide for periodic adjustment per kWh of sales when the unit cost of fuel [F(m) / S(m)] is above or below the base unit cost of \$.02776 per kWh [F(b) / S(b)]. The current monthly charges shall be increased or decreased by the product of the kWh furnished during the current month and the fuel adjustment rate for the preceding month where the fuel adjustment rate is defined below:

$$\text{Fuel Adjustment Rate} = \frac{F(m)}{S(m)} - \frac{F(b)}{S(b)}$$

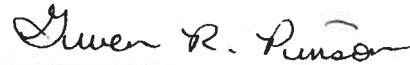
Where F is the expense of fossil fuel in the base (b) and current (m) periods, and S is sales in the base (b) and current (m) periods, all defined below:



2. Fuel cost (F) shall be the most recent actual monthly cost of:
 - a. Fossil fuel consumed in the utility's own plants, and the utility's share of fossil and nuclear fuel consumed in jointly owned or leased plants, plus the cost of fuel which would have been used in plants suffering forced generation and/or transmission outages, but less the cost of fuel related to substitute generation, plus
 - b. The actual identifiable fossil and nuclear fuel costs associated with energy purchased for reasons other than identified in paragraph (c) below, but excluding the cost of fuel related to purchases to substitute the forced outages, plus
 - c. The net energy cost of energy purchases, exclusive of capacity or demand charges (irrespective of the designation assigned to such transaction) when such energy is purchased on an economic dispatch basis. Included therein may be such costs as the charges for economy energy purchases and the charges as a result of scheduled outages, also such kinds of energy being purchased by the buyer to substitute for its own higher cost energy; and less
 - d. The cost of fossil fuel recovered through inter-system sales including the fuel costs related to economy energy sales and other energy sold on an economic dispatch basis.
 - e. All fuel costs shall be based on weighted average inventory costing.
3. Forced outages are all non-scheduled losses of generation or transmission which require (purchase of) substitute power for a continuous period in excess of six (6) hours. Where forced outages are not as a result of faulty equipment, faulty manufacture, faulty design, faulty installations, faulty operation, or faulty maintenance, but are Acts of God, riot, insurrection or acts of public enemy, the utility may, upon proper showing, with the approval of the Commission, include the fuel cost of substitute energy in the adjustment.

DATE OF ISSUE: October 2, 2017
DATE EFFECTIVE: Service rendered on and after November 2, 2017
ISSUED BY: *Anthony S. Campbell*
 Anthony S. Campbell,
 President and Chief Executive Officer

Issued by authority of an Order of the Public Service Commission of Kentucky in Case No. 2017-00002 dated August 7, 2017.

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| KENTUCKY PUBLIC SERVICE COMMISSION |
| Gwen R. Pinson Executive Director  |
| EFFECTIVE 11/2/2017 PURSUANT TO 807 KAR 5:011 SECTION 9 (1) |